84-1582 (2)

NO.

FILED
APR 5 1985
ALEXANDER L. STEVAS
CLERK

In the Supreme Court of the United States

OCTOBER TERM, 1984

R. S. MARTIN, JR., ET AL

Petitioners,

versus

KILGORE FIRST BANCORP, INC.

and

KILGORE FIRST NATIONAL BANK

Respondents,

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI VOL. II

CHARLES H. CLARK
P. O. Box 98
Tyler, Texas 75710
Telephone: 214/593-2514

Attorney for Petitioners

A B Letter Service, Inc., 327 Chartres St., New Orleans, La. (504) 581-5555

85 pp

APPENDIX "D"

PROSPECTUS OF KILGORE FIRST BANCORP, INC.

AND PROXY STATEMENT OF

KILGORE FIRST NATIONAL BANK

37,500 Shares

KILGORE FIRST BANCORP, INC.

Common Stock, Par Value $1.00 per Share

$1,777,900, principle amount,
12% Subordinated Debentures

The shares of the common stock of Kilgore First Bancorp, Inc. (the "Holding Company") to which this prospectus and proxy statement relate are being offered to the shareholders of Kilgore First National Bank, Kilgore, Texas (the "Bank"), in exchange for all of the outstanding stock of the Bank pursuant to a proposed consolidation of the Bank with a subsidiary of the Holding Company.

As described herein, the proposed consolidation is being submitted to a vote of shareholders of the Bank at a special meeting to be held on October 22, 1982. If the proposed consolidation is approved by the shareholders and other applicable conditions are satisfied, each outstanding share of Bank common stock, $20.00 par value, will be exchanged for and converted into one (1) share of Holding Company common stock, $1.00 par value, except shares of Bank stock acquired by the Holding Company for cash

pursuant to the exercise of dissenting shareholders' rights as described herein. Certain principal shareholders will have up to $98.67 of debt per share assumed by the Holding Company. To the extent shareholders do not have debt of $98.67 per share, they will receive one 12% subordinated debenture with a face value of $98.67 for each share of Bank stock exchanged.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is September 30, 1982.

TABLE OF CONTENTS

	Page
SUMMARY OF THE PROPOSED BANK HOLDING COMPANY REORGANIZATION AND CONSOLIDATION	6
THE PLAN OF REORGANIZATION	6
REASONS AND BASIS FOR THE PLAN	6
Debt Assumption	6
PROXIES AND REQUIRED VOTE	7
RIGHTS OF DISSENTING SHAREHOLDERS	8
TAX CONSEQUENCES	8
OPERATIONS AFTER CONSUMMATION OF THE PROPOSAL	8
COMPARISON OF LEGAL RESTRICTIONS ON KILGORE FIRST NATIONAL BANK AND THE HOLDING COMPANY	8
OTHER CONSIDERATIONS	9
SPECIAL MEETING OF THE SHAREHOLDERS	10
THE PLAN OF REORGANIZATION	11
Description of the Plan	11
Conditions to Consummation of the Plan	14
Reasons for Reorganization	14
Assumption of Debt	15
Equalization for Shareholders Without Debt	15
Increase in Capital	16
Expansion of Banking Business	16
Repurchase of Holding Company Stock	16
Increased Business Flexibility	16
Description of Holding Company Debt	16
Special Risk Factors	17
Appraisal Rights of Dissenting Shareholders	17
FEDERAL TAX CONSEQUENCES	19
Other Possible Consequences	21
MARKETABILITY OF COMMON STOCK OF HOLDING COMPANY AND KILGORE FIRST NATIONAL BANK	21

	Page
DESCRIPTION OF KILGORE FIRST BANCORP, INC.	21
Organization and Operation	21
Supervision and Regulation	22
Management and Principal Shareholders	23
Principal Security Holders of the Company	24
Compensation of Officers and Directors	25
Description of Capital Stock	25
Description of Preferred Stock	25
Dividend Rights	26
Voting Rights	26
Redemption	26
Liquidation or Dissolution Rights	27
Preemptive Rights	27
Description of Common Stock	27
Dividend Rights	27
Voting Rights	27
Liquidation Rights	27
Preemptive Rights	28
Miscellaneous	28
Reports	28
Property	28
Legal Proceedings	28
Financial Statements	28
Pro Forma Statements of Earnings	29
Notes to Unaudited Pro Forma Statements of Earnings	30
Unaudited Pro Forma Consolidated Statements of Earnings	31
Notes to Unaudited pro Forma Statements of Earnings	32
Unaudited Pro Forma Consolidated Balance Sheet	33
Notes to Pro Forma Consolidated Balance Sheets	35
Unaudited Pro Forma Balance Sheets	36
Notes to Pro Forma Balance Sheet	37
Comparative Selected Per Share Data	38
Pro Forma Capitalization	39

	Page
DESCRIPTION OF NEW KILGORE FIRST STATE BANK	40
DESCRIPTION OF KILGORE FIRST NATIONAL BANK	40
History	40
Business	40
Competition	41
Employees	42
Properties	42
Regulation and Supervision	42
Litigation	43
Management of Kilgore First National Bank	43
Capital Structure of the Bank	46
Remuneration of Directors and Principal Officers	46
Transactions with Directors, Officers and Associates	46
Trusteed Affiliate	47
Financial Information	48
Summarized Financial Information	49
Management Discussion and Analysis of Financial Condition and Results of Operations	50
Unaudited Balance Sheet	53
Unaudited Statements of Earnings	54
Statements of Changes in Financial Position	55
Results of Operations	56
Financial Condition and Capital	56
Selected Statistical Data	57
COMPARISON BETWEEN HOLDING COMPANY STOCK AND STOCK OF KILGORE FIRST NATIONAL BANK	65
Authorized But Unissued Stock	65
Dividend Rights	65
Voting Rights	66
Cumulative Rights	66
Preemptive Rights	67
Liquidation Rights	67
Assessment and Redemption	67

	Page
OTHER MATTERS	67
Legal Opinions	67
Experts	68
Indemnification	68
Interests of Named Experts and Counsel	68
APPENDIX A—Agreement and Plan of Consolidation	69
APPENDIX B—Appraisal Rights of Dissenting Shareholders	80
APPENDIX C—Debenture	83

If the Plan of Reorganization is effected, the Holding Company will provide to its shareholders annual reports of the Holding Company, including consolidated financial statements of the Holding Company and the Continuing Bank. These reports will be audited by independent accountants.

The Holding Company has filed with the Securities and Exchange Commission (the "Commission"), Washington, D.C., a Registration Statement under the Securities Act of 1933, as amended, with respect to the Common Stock offering hereby. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted pursuant to the rules and regulations of the Commission. The information omitted may be obtained from the Commission's principal office in Washington, D.C., upon payment of the fees prescribed by the Commission.

The Holding Company hereby undertakes to provide without charge to each person to whom a copy of this Proxy Statement has been delivered, upon their written or oral request, a copy of any or all documents incorporated

by reference in this Proxy Statement, other than exhibits to such documents. Written requests should be directed to Mr. Charles R. Wooldridge, Kilgore First Bancorp, Inc., 910 North Kilgore Street, Kilgore, Texas 75662, telephone number (214) 984-1511.

No person has been authorized to give any information or to make any representation not contained in this Proxy Statement and Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized. This Proxy Statement and Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the registered securities to which it relates or an offer to sell or a solicitation of an offer to buy to any person in any jurisdiction in which it would be unlawful to make such offer of solicitation. Neither the delivery of this Proxy Statement and Prospectus at any time, nor any offer or solicitation made hereunder, shall under any circumstances imply that the information herein is correct as of any time subsequent to its date.

SUMMARY OF THE PROPOSED BANK HOLDING COMPANY REORGANIZATION AND CONSOLIDATION

The following is a brief summary of certain information with respect to the matter to be considered at the special meeting of the shareholders of Kilgore First National Bank. This summary is necessarily incomplete and is qualified in its entirety by the more detailed information contained in or incorporated by reference in this Proxy Statement. Shareholders should carefully read these materials.

THE PLAN OF REORGANIZATION

The Special Meeting has been called to permit the shareholders of Kilgore First National Bank (hereinafter the "Bank") to consider and take action upon a Plan of Reorganization (hereinafter the "Plan") to consolidate the Bank with and into a newly organized state banking association, New Kilgore First State Bank (hereinafter the "Interim Bank"), which will be a wholly-owned subsidiary of Kilgore First Bancorp, Inc. (hereinafter the "Holding Company"). Upon consummation of the consolidation, shareholders of the Bank will receive either one share of Holding Company common stock and one 12% Subordinated Debenture issued by the Holding Company or (in the case of certain principal Bank shareholders) one share of Holding Company common stock and the right to have certain indebtedness assumed for each share of Bank stock held by them. See "The Plan of Reorganization."

REASONS AND BASIS FOR THE PLAN

A majority of the Board of Directors of the Bank has concluded that the Plan would be in the best interest of the Bank and its shareholders and, therefore, recommends a vote for approval of the Plan. In the opinion of these directors, consummation of the Plan will afford the Bank greater flexibility in responding to the expanding financial needs of its customers, in meeting the increasing competition for providing financial services, and in raising any additional capital necessary to meet future growth requirements of the Bank.

Debt Assumption

Although the Plan provides the flexibility needed for

responding to a changing banking environment and for efficiently obtaining equity capital in the future, the Plan also provides additional benefits to certain principal shareholders of the Bank who collectively own 21,041 shares or 56% of the outstanding shares of Bank stock (and who are hereinafter referred to as the "Principal Shareholders"). The Principal Shareholders are identified below under the caption "Description of Kilgore First Bancorp, Inc.—Management and Principal Shareholders." If the Plan is approved, the Holding Company will borrow approximately $1,922,000 from Republic National Bank of Dallas, Dallas, Texas, which will be used primarily to assume certain debt of the Principal Shareholders which was incurred by them in connection with the original acquisition of their shares of Bank stock. The Plan provides that each of the Principal Shareholders will receive one (1) share of Holding Company common stock and have up to $98.67 of debt assumed by the Holding Company for each one share of Bank stock held by the Principal Shareholders.

The principal reason for the proposed assumption of the stock acquisition debt by the Holding Company is that the indebtedness can be more efficiently serviced by the Holding Company because of the preferential treatment which the federal tax laws afford to inter-corporate dividends. Because the Principal Stockholders will benefit from the assumption of their acquisition related indebtedness by the Holding Company, the Plan provides that those shareholders other than the Principal Shareholders (which shareholders are hereinafter collectively referred to as the "Minority Shareholders") will receive a 12% Subordinated Debenture of the Holding Company in an amount equal to $98.67 for each one share of Bank stock exchanged in order to equalize the economic benefits of the proposed transaction as to the Minority Shareholders. (See "Reasons for Reorganization.")

For further information, see "The Plan of Reorganization" below.

PROXIES AND REQUIRED VOTE

Proxies will be voted as specified therein unless no choice is indicated, in which event such proxies will be voted in favor of the proposal. If the enclosed form of proxy is executed and returned, it may be revoked at any time before it is exercised by written notice to the Bank, by the execution of a new proxy, or by voting in person the shares subject to the proxy. The affirmative vote of not less than two-thirds of the outstanding shares of the capital stock of the Bank is required to approve the Plan. Only shareholders of record of the Bank at the close of business on September 30, 1982, are entitled to notice of and to vote at the meeting. This Proxy Statement has been mailed to all holders of record of capital stock of the Bank at such date on or about September 30, 1982.

Upon consummation of the Holding Company, the Principal Shareholders of the Holding Company will own approximately 56% of the Holding Company's stock. These shareholders currently own 56% of the outstanding shares of the Bank.

RIGHTS OF DISSENTING SHAREHOLDERS

Any shareholder of the Bank may dissent from the consolidation and obtain the value of his shares of Bank stock by following the procedures set forth in 12 U.S.C. 215 (1980). In order to exercise dissenter's rights, the dissenting shareholder must vote against the Plan of Reorganization and request in writing within thirty days after consummation of the Plan of Reorganization that he is entitled

to receive the fair value of his shares. However, if the dissenting shareholder votes against the Plan of Reorganization but does not make the aforementioned request upon the Continuing Bank, the dissenting shareholder must participate in the Plan of Reorganization. For a complete description of dissenting shareholders' rights, see "Appraisal Rights of Dissenting Shareholders."

TAX CONSEQUENCES

The Bank will not apply for a ruling from the Internal Revenue Service concerning the proposed transaction. However, it is anticipated that no gain or loss will be recognized by the shareholders of the Bank other than the Principal Shareholders upon the transfer of their Bank stock to the Holding Company in exchange for Holding Company stock. Each shareholder of the Bank is urged to consult his or her own tax advisor as to the federal income tax consequences in his or her own particular circumstances. See "Federal Tax Consequences to Shareholders."

OPERATIONS AFTER CONSUMMATION OF THE PROPOSAL

Following consummation of the Plan, it is anticipated that the business of the Bank will be continued as it is at the present time and the officers of the Bank will continue in their present positions. There are no agreements with any officer or employee of the Bank concerning any change in compensation following consummation of the Plan.

COMPARISON OF LEGAL RESTRICTIONS ON KILGORE FIRST NATIONAL BANK AND THE HOLDING COMPANY

The Bank is organized under the national banking laws and as such, its activities are generally limited to commercial banking. The Holding Company is a business corporation organized under the laws of the State of Texas and, after consummation of the Plan, will become a bank holding company registered with the Board of Governors of the Federal Reserve System. As a bank holding company, the Holding Company may engage in certain activities which are not permitted for a national banking association. Most significantly, the Holding Company may own interests in other banks within the limits and under the conditions of the Bank Holding Company Act of 1956, as amended, and the regulations issued thereunder. Also, within such limits and conditions, the Holding Company may make and acquire loans and other extensions of credit such as those made by a mortgage company, may act as an insurance agent or broker, may act as an underwriter for credit life, accident and health insurance related to extensions of credit and may engage in other activities which the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

OTHER CONSIDERATIONS

The Holding Company is authorized to issue 1,000,000 shares of cumulative preferred stock, $1.00 par value and 1,000,000 shares of common stock, $1.00 par value. The Holding Company will exchange 37,500 shares of its common stock for 37,500 shares of the common stock of the Bank, leaving the remainder of its common and

preferred stock available in the future for raising additional equity capital, corporate acquisitions, or any other proper purpose. Additionally, the Holding Company will issue 12% Subordinated Debentures in amounts of $98.67 pursuant to the conditions within the Plan. Shareholders of the Holding Company will not be entitled to cumulative voting nor will they have preemptive rights with respect to the issuance of shares. See "Description of Capital Stock."

PROXY STATEMENT-PROSPECTUS

SPECIAL MEETING OF SHAREHOLDERS TO BE HELD OCTOBER 22, 1982

This Proxy Statement is furnished in connection with the solicitation by a majority of the Board of Directors of Kilgore First National Bank, Kilgore, Texas (hereinafter "Bank"), of Proxies for use at a Special Meeting of Shareholders of the Bank to be held October 22, 1982. The record date for determining stock ownership is September 30, 1982. Only shareholders of record as of September 30, 1982 will be entitled to notice of, and to vote at, the Special Meeting. As of September 30, 1982, the Bank had issued and outstanding 37,500 shares of Common Stock with a par value of $20.00 per share.

The cost of soliciting Proxies will be borne by the Bank. In addition to use of the mails, Proxies may be solicited personally or by telephone or telegraph by officers, directors and certain employees who will not be specially compensated for such soliciting. The estimated cost of the solicitation is approximately $5,000, excluding legal and accounting fees.

It is intended that the shares represented by the enclosed Proxy will be voted, unless otherwise indicated on the Proxy, for approval and authorization of one matter:

> For approval of a Plan of Reorganization which includes the Consolidation Agreement under which the Bank will be consolidated into New Kilgore First State Bank, a wholly-owned subsidiary of Kilgore First Bancorp, Inc., and for authorization of such further action by the Board of Directors and proper officers of the Bank as may be necessary or appropriate to carry out the intents and purposes of such Plan.

With respect to the Plan of Reorganization, shareholders are entitled to one vote for each share of stock.

A majority of the Bank's directors has indicated the intention to vote in favor of the Plan of Reorganization. Mr. R. S. Martin and Mr. Ruben Martin, III, both of whom are directors of the Bank, have indicated in writing that they intend to oppose the Plan.

Directors R. S. Martin and Ruben Martin, III have opposed the Plan of Reorganization on the grounds that the reorganization will not be in the best interests of the minority shareholders. These Directors have objected to the assumption of acquisition debt by the Holding Company, the rate of interest which the subordinated debentures to be issued to the majority shareholders will bear, and the price to be paid to non-resident shareholders.

These Directors own approximately 4.5% of the outstanding shares of the Bank and have solicited proxies in an attempt to defeat the consummation of the Plan of Reorganization. The management of the Bank does not

anticipate any legal action with respect to the aforementioned opposition nor does it anticipate that this opposition will prevent the proposed consummation of the Plan.

Any shareholder submitting a proxy has the right to revoke it at any time before it is exercised. Therefore, execution of the proxy accompanying this proxy statement will not in any way affect the shareholder's right to attend the meeting in person. Revocation may be made prior to the meeting by written revocation sent to the Cashier of the Bank at the office of the Bank at 910 Kilgore Street, Kilgore, Texas 75662, or it may be done personally upon oral or written request at the Special Meeting. The shares represented by proxies will be voted unless the proxy is mutilated or otherwise received in such form or at such time as to render it void. In absence of specific instructions to the contrary, proxies received by the Bank will be voted in favor of the proposals described herein.

THE PLAN OF REORGANIZATION

Description of the Plan

Shareholders of Kilgore First National Bank will consider and vote upon a proposed Plan of Reorganization which will result in a corporate structure in which the Bank will become a wholly-owned subsidiary of the Holding Company. The present structure prohibits the Bank from expanding its services into other fields of financial and management activities relating to banking because of restrictions imposed by statutes on banks. Those restrictions do not similarly limit bank holding companies. Therefore, to create a more flexible structure and to provide the Bank with a more efficient means of obtaining equity capital, the management of the Bank authorized

the following transactions necessary to consummate the Plan.

The Holding Company will effect the acquisition of the Bank pursuant to a statutory consolidation in which an Intearim Bank organized and chartered by the Holding Company under the Texas Banking Code of 1943, as amended, will be consolidated with and into the Bank. The Interim Bank will be a wholly-owned subsidiary of the Holding Company and will have no business activity except the consolidation with the Bank. The Interim Bank will be capitalized with $5,000 in accordance with regulatory requirements.

In accordance with the terms of the Agreement and Plan of Consolidation, it is proposed that the Bank will be consolidated with the Interim Bank pursuant to the provisions of 12 U.S.C. 215 (1980). Thus, at the effective date of the consolidation, the corporate existence of the Interim Bank and the Bank will be consolidated and become the Continuing Bank which shall be deemed to be the same corporation as the Interim Bank and the Bank. The Continuing Bank will acquire all assets and will assume all liabilities of the Bank. The Continuing Bank will conduct its business under the Articles of Association and the Bylaws of the Bank. The officers and directors of the Continuing Bank shall be the same as those of the Bank.

Upon consummation of the consolidation, the Holding Company will acquire 100% of the common stock of the Bank and each shareholder of the Bank will become a shareholder of the Holding Company. Each shareholder of the Bank, except the Principal Shareholders, will be entitled to receive one share of Holding Company stock plus one 12% Subordinated Debenture in the aggregate amount

of $98.67 for each share of Bank stock surrendered in the exchange. The Principal Shareholders will be entitled to receive one share of Holding Company common stock for each share of Bank stock surrendered in the exchange plus the following additional consideration: the Principal Shareholders will have an aggregate of $1,922,000 ($98.67 per share) of personal indebtedness incurred in connection with the acquisition of their shares of the Bank assumed by the Holding Company. The amount of debt per share for each Principal Shareholder to be assumed by the Holding Company will be internally allocated by the Principal shareholders in accordance with each principal Shareholder's individual financial and tax considerations. This Proxy Statement makes no representation or judgment as to the amount of debt per share to be assumed by each Principal Shareholder. The names of the Principal Shareholders and the amounts of stock owned by each are set forth under "Description of Kilgore First Bancorp, Inc.—Management and Principal Shareholders."

Upon consummation of the consolidation, the ultimate result is that the Holding Company will own all of the stock of the Continuing Bank and the former shareholders of the Bank will become shareholders of the Holding Company—one group of such shareholders receiving Holding Company common stock and 12% Subordinated Debentures and the other group receiving Holding Company common stock plus the assumption and discharge of their indebtedness. The effect of the approval of the Plan of reorganization on the two groups of Bank shareholders with respect to one share of common stock is summarized in the following table:

	Before Consolidation	After Consolidation
Minority holders of Kilgore First National Bank common stock	One share of Kilgore First National Bank common stock	One share of Holding Company common stock plus one 12% Subordinated Debenture in the amount of $98.67
Principal Holders of Kilgore First National Bank common stock	One share of Kilgore First National Bank common stock pledged to secure $98.67 of principal indebtedness	One share of Holding Company common stock plus $98.67 of principal indebtedness assumed and paid by the Holding Company

The terms of the Plan, including the Agreement and Plan of Consolidation, the relative value of the Subordinated Debentures, and assumption of indebtedness, were all negotiated by the Boards of Directors of the Holding Company, the Bank and the Interim Bank. Since many directors serve on more than one of the aforementioned Boards, those directors might be deemed to be not independent and the relative values of the Subordinated debentures and assumption of indebtedness might be deemed not to have been determined in arms-length negotiations. Each shareholder of the Bank must individually consider the terms of the Plan, including the exchange of stock and assumption of indebtedness after the consolidation, and the proposed operations of the Holding Company (which may be more divaersified than that of the Bank) in making the decision of whether to approve the Plan and the Agreement and Plan of Consolidation. Shareholders of the Bank who vote against the Plan and who perfect their dissenters'

rights will be entitled to receive cash, equal to the value of their shares of the Bank in accordance with their dissenters' rights as provided in 12 U.S.C. 215 (1980). See "Appraisal Rights of Dissenting Shareholders."

The expenses of effectuating the Plan of Reorganization are estimated at approximately $40,000. In the event the Plan is not consummated, the Bank will assume such expenses as are incurred, including the cost of organizing the Holding Company. If the Plan is consummated the Continuing Bank will issue a dividend to the Holding Company to pay the organizational expenses.

Conditions to Consummation of the Plan

Consummation of the consolidation is conditional upon the approval thereof by a vote of the holders of two-thirds of the outstanding shares of the Bank and of the Interim Bank. The Federal Reserve Bank of Dallas, acting pursuant to delegated authority, approved the application filed by the Holding Company under Section 3(a)(1) of the Bank Holding Company Act of 1956, as amended, to become a bank holding company on January 19, 1982. The application to consolidate has been filed with the Federal Deposit Insurance Corporation (hereinafter "FDIC"); however, until the requisite affirmative vote of the shareholders of both banks is obtained, the FDIC will not issue a final approval. Approval of the Comptroller of the Currency, pursuant to 12 U.S.C. 215 (1980) has not yet been obtained, but such approval is expected to be received concurrently with that of the FDIC. The Interim Bank has received its certified Articles of Association and a Certificate of Authority to do business from the Commissioner of the Texas Department of Banking pursuant to the Texas Banking Code of 1943, as amended.

The Plan may not be consummated within thirty days after approval by federal regulatory authorities, during which period the United States Department of Justice may file suit to enjoin the consolidation, should it object to the consolidation for competitive reasons.

The obligation of the Bank and the Holding Company to consummate the proposal may be terminated if (1) all requisite regulatory approvals are not obtained; (2) the consolidation no longer appears to be in the best interests of the Bank; (3) the number of shares of common stock of the Bank voted against the proposal, or in respect of which written notice is given purporting to dissent from the proposal makes consummation of the proposal unwise; or (4) more than ten percent of the holders of common stock of the Bank exercise their dissenters' rights under 12 U.S.C. 215 (1980).

Reasons for Reorganization

In the judgment of the Board of Directors of the Bank, the proposed reorganization will serve the best interests of the banking public and the shareholders of the Bank by providing a more flexible structure for meeting the increasing competition for financial services, by increasing opportunities for diversification by the Holding Company into nonbanking ventures, and by providing the Bank with a more efficient means of obtaining equity capital.

Assumption of Debt

The justification for the proposed assumption of stock acquisition debt of the Principal Shareholders is that the debt can be more efficiently serviced by the Holding

Company because of the preferential treatment which the federal tax laws afford to inter-corporate dividends. In the absence of the Holding Company, the earnings of the Bank would be taxed twice before the portion of those earnings attributable to the stock held by the Principal Shareholders could be applied by such shareholders to reduce their acquisition indebtedness. These Bank earnings would be taxed first at the Bank level and then again at the individual level when paid to the shareholders as dividends. However, dividends paid to the Holding Company by the Bank will be tax-free. Accordingly, if the Holding Company assumes the acquisition related debt of the Principal Shareholders in connection with the proposed exchange of Holding Company stock for Bank stock, the earnings of the Bank can be applied to reduce such debt without first being subjected to taxation as ordinary income to the individual Principal Shareholders. Substantial tax savings will thereby be realized by the Principal Shareholders.

Equalization for Shareholders Without Debt

Recognizing that the Principal Shareholders will benefit from the Plan in a way that cannot be shared by shareholders not having acquisition related indebtedness to be assumed by the Holding Company, an effort has been made to equalize the economic effects of the proposed transaction as to the Minority Shareholders. Accordingly, the Plan provides for the Minority Shareholders to receive a 12% Subordinated Debenture of the Holding Company in a fair amount equal to $98.67 for each one share of Bank stock exchanged, which is equal to the per share amount of acquisition debt to be assumed by the Holding Company from the Principal Shareholders. The Minority Shareholders will also receive Holding Company common stock on the same one-for-one basis as the Principal Share-

holders. The Principal Shareholders will only receive the Holding Company's Subordinated Debentures pursuant to the Plan to the extent that any of the Principal Shareholders has aggregate acquisition debt amounting to less than $98.67 per share, in which event such Principal Shareholders would receive Debentures in an aggregate amount equal to the amount of such difference.

The Subordinated Debentures will become due thirteen years from the date of issuance. The Holding Company will have the right to prepay the Subordinated Debentures at par value at any time after a period of five years from the date of issuance.

Increase in Capital

The Holding Company may be utilized as a source of financing an increase in the capital of the Bank should the need arise to accommodate its future growth. However, there are no plans at present for the Holding Company to incur debt for this purpose.

Expansion of Banking Business

The reorganization of the Bank as a bank holding company will facilitate the efficient expansion of the Bank's premises because the holding company may be used as a source of financing under applicable laws and regulations. At the present time, the Bank does not have plans for future expansion but anticipates that expansion of its existing premises will be necessary in the future due to the Bank's rapid growth.

Repurchase of Holding Company Stock

The Holding Company may also provide the means of internally financing the repurchase of any common stock of the Holding Company should this stock later become available for sale. Such a repurchase could be useful to provide liquidity for shareholders and to help perpetuate local ownership of the Holding Company and the Bank.

Increased Business Flexibility

While there are currently no plans for the Holding Company to engage in any activity other than ownership of the stock of the Bank, a secondary reason for organization of the Holding Company is to make it possible, if appropriate business opportunities arise in the future, to acquire other bank subsidiaries or to expand the range of services offered to customers of the Bank into one or more areas of activity permissible for a bank holding company. As explained further under the caption "Description of Kilgore First Bancorp, Inc.," a bank holding company may engage in certain business activities that are closely related to banking which a bank may not engage in directly under applicable regulations. In addition, a bank holding company enjoys somewhat greater flexibility with regard to its internal corporate affairs than does a national banking association. See "Supervision and Regulation."

Description of Holding Company Debt

The Holding Company obtained a loan commitment from Republic National Bank of Dallas, Dallas, Texas, for $1,922,000 to be secured by the pledge of all of the capital stock of the Bank (Continuing Bank) now or hereafter owned by the Holding Company. The proceeds of the loan will

be applied to discharge the existing debt of the Principal Shareholders.

The loan will be amortized over a period of twelve (12) years, will mature annually and will bear interest at Republic National Bank's prime rate, as it changes from time to time. Republic National Bank will hold as collateral no less than 80% of the common stock of the Bank.

Special Risk Factors

Upon consummation of the Plan, the Holding Company will own all of the capital stock of the Bank and will become a registered bank holding company under the Bank Holding Company Act of 1956, as amended. Since the Holding Company does not presently contemplate being engaged in any other business activities, the ability of the Holding Company to pay its operating expenses, to service its debt obligations, and to pay dividends to its shareholders will be directly and wholly attributable to and dependent upon the profitability of the Bank and the receipt by the Holding Company of dividends therefrom. As is the case with any financial institution, the profitability of the Bank in turn is subject to the fluctuating availability of money, to loan demand, to changes in the prime lending rate, and to changes in economic conditions in general.

As previously discussed, the Holding Company will incur debt to assume and discharge the acquisition indebtedness of the Principal Shareholders. This debt will be secured by a pledge of the Bank's Common Stock acquired by the Holding Company pursuant to the Plan. For some period following consummation of the Plan, the Holding Company's only significant asset will be the Bank's

Common Stock pledged by the Holding Company to secure the debt. **A future default by the Holding Company in the repayment of this debt could result in the loss through foreclosure of the Bank's Common Stock pledged by the Holding Company.** The Holding Company will not declare dividends until its debt level is substantially reduced.

There is currently no market for the securities of the Holding Company and it is unlikely that a market will develop as a result of this offering. Therefore, shareholders may not be able to readily liquidate these securities in case of a personal financial emergency or otherwise.

Appraisal Rights of Dissenting Shareholders

As required by the provisions of 12 U.S.C. 215 (1980), any shareholder of the Bank who has voted against the proposed consolidation at the special meeting, or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the proposed consolidation, will be entitled to receive the value of the shares of the Bank held by him as of the time the consolidation is approved by the Comptroller of the Currency upon written request made to the Continuing Bank at any time before thirty days after the date of consummation of the consolidation, accompanied by the surrender of his stock certificates. Inasmuch as signed, unmarked proxies received will be voted in favor of the proposed consolidation, the Bank takes the position that the submission of such an unmarked proxy, unless written notice of dissent has been given or the proxy has been revoked prior to its being voted, will serve to waive dissenters' rights. The value of the shares of any dissenting shareholder will be ascertained as of the effective date of the consolidation by an apprasial made by a committee of three persons. The committee will

be composed of one person selected by the vote of the holders of a majority of the stock held by dissenting shareholders, the owners of which are entitled to payment in cash by reason of having complied with the above-described provisions of Section 215; one person selected by the directors of the Continuing Bank; and one person selected by the two appraisers so selected. The valuation agreed upon by any two of the three appraisers will govern. The expenses incurred in such appraisal will be allocated between the dissenting shareholders and the Continuing Bank in such manner as shall be deemed fair and equitable by a majority of the appraisers. If the value so fixed is not satisfactory to any dissenting shareholder who has requested payment, such shareholder may, within five days after being notified of the appraised value of such shares, appeal to the Comptroller of the Currency who will cause a reappraisal to be made. The reappraisal of the Comptroller of the Currency will be binding and final as to the value of the shares of the appealing shareholder. If within ninety days from the date of consummation of the consolidation, for any reason one or more of the appraisers is not selected as above provided, or the appraisers fail to determine the value of such shares, the Comptroller of the Currency will, upon written request of any interested party, cause an appraisal to be made which will be final and binding on all parties. The expenses of the Comptroller of the Currency in making the reappraisal or appraisal, as the case may be, will be paid by the Continuing Bank.

The value of the shares as finally ascertained will be promptly paid to the dissenting shareholder by the Continuing Bank. The shares of Holding Company common stock which would have been delivered to dissenting shareholders had they not requested payment will be sold at an advertised public auction, and the Holding Company

shall have the right to purchase any of such shares. If the shares are sold at a price greater than the amount paid to the dissenting shareholders, the excess of the sale price will be paid to the dissenting shareholders. Any shareholder of the Bank who votes against the consolidation at the special meeting or who gives notice in writing at or prior to such meeting to the presiding officer that he dissents from the consolidation will be notified in writing of the date of consummation of the consolidation.

The foregoing summary does not purport to be a complete statement of dissenter's rights of appraisal, and the summary is qualified in its entirety by reference to the applicable provisions of 12 U.S.C. 215, which is attached to this Proxy Statement.

FEDERAL TAX CONSEQUENCES

Section 368(a)(1)(A) and 368(a)(2)(E) as well as Section 354 of the Internal Revenue Code of 1954, as amended (the "Code") provide for the tax-free reorganization of certain corporations. Thus, there is no recognition of gain or loss to exchanging shareholders and security holders in a reorganization in which stock or securities in a corporation which is a party to a reorganization is exchanged solely for stock or securities in that corporation or another corporation which is a party to the reorganization. In the proposed transaction, the Minority Shareholders will exchange stock in the Bank for stock and Subordinated Debentures of the Holding Company. The Principal Shareholders will, in addition to the stock, have certain indebtedness assumed rather than receive Subordinated Debentures. Thus, there are different tax consequences for the Principal Shareholders and the Minority Shareholders. The debentures which are to be issued are long-term debentures intended to qualify as "securities" under the Code.

The tax consequences for the Minority Shareholders, who receive solely stock and debentures are as follows:

(1) No gain or loss will be recognized to the Minority Shareholders on receipt by them of shares of the Holding Company and debentures.

(2) The tax basis of the shares of the Holding Company and the debentures received by the Minority Shareholders of the Bank will be the same as the tax basis of the shares of Bank common stock exchanged therefor allocated as described more particularly below.

(3) The holding period of the shares of the stock received by the Minority Shareholders of the Bank will be the same as the holding period for the shares of Bank common stock exchanged therefor, provided that the Bank common stock is held as a capital asset at the time of the exchange.

The tax consequences for the Principal Shareholders will be somewhat different as they are receiving not only stock but also having certain indebtedness assumed. The consequences of the assumption of the indebtedness will depend upon the position taken by the Internal Revenue Service (the "Service") with regard to such assumption. On September 8, 1980, the Service issued Revenue Procedure 80-34, which was superseded and continued by Revenue Procedure 81-10 setting forth the conditions under which the Service will issue advance rulings concerning the assumption of an individual's stock acquisition debt by a bank holding company for federal income tax purposes. This Revenue Procedure, however, only states the prerequisites which must be met before the Service will consider issuing a ruling. In addition, it is possible that this Revenue Procedure will be revised in light of certain

changes made by the Tax Equity and Fiscal Responsibility Act of 1982, which adds specific sections to existing law with regard to treatment of acquisition indebtedness assumption and bank holding company formation.

The Principal Shareholders of the Holding Company incurred stock acquisition indebtedness during the years of 1971 through 1980. Accordingly, the Principal Shareholders cannot establish that the Holding Company assumed the debt within twelve months of the date it was incurred. The Principal Shareholders will therefore not request a ruling from the Service.

With respect to those shareholders of the Bank who will receive both Holding Company common stock and Subordinated Debentures, section 358(b)(1) of the Code provides that the basis determined under section 358(a)(1) of the Code shall be allocated among the properties permitted to be received without the recognition of gain or loss. In an exchange to which section 354 of the Code applies, if the transferor receives both stock and securities, then the basis of the property transferred shall be allocated among the stock and securities received in proportion to the fair market values of each. Consequently, assuming again that section 354 applies to the exchange, including the receipt of the Subordinated Debentures, the basis of the Holding Company's common stock and Subordinated Debentures received by the shareholders of the Bank should be the same as the basis of the Bank common stock surrendered in exchange therefor, decreased by the amount of acquisition indebtedness assumed, if any, and allocated between the Holding Company's common stock and Subordinated Debentures in propostion to the fair market values of each.

The foregoing description is a summary of the general federal income tax consequences which may be expected to result from the approval of the Plan of Reorganization by the Bank shareholders. Each shareholder is urged, however, to consult his or her own tax advisors as to the federal income tax consequences in light of his or her own particular circumstances as well as the tax consequences under applicable state and local laws.

Other Possible Consequences

Under the laws of some jursidictions shares of the common stock of the Holding Company may not be legal investments for certain institutions and fiduciaries, whereas shares of the common stock of the Bank are.

MARKETABILITY OF COMMON STOCK OF HOLDING COMPANY AND KILGORE FIRST NATIONAL BANK

As previously discussed, there is currently no public trading market for the securities of the Holding Company and it is unlikely that a market will develop as a result of this offering.

A market for sale of the common stock of the Bank has not been established. However, during the year of 1981, 27 shares were sold at $170.37 per share and 31 shares were sold at $160.00 per share.

DESCRIPTION OF KILGORE FIRST BANCORP, INC.

Organization and Operation

The Holding Company was incorporated under the laws of the State of Texas on July 20, 1981, at the direction of the Board of Directors of the Bank for the purpose of acquiring all the outstanding shares of the Bank. The sole incorporator was Bruce L. James. The initial capital of the Holding Company is $1,000 which represents shares issued to Mr. Harris R. Fender for the purpose of perfecting the corporate organization of the Holding Company. Those shares will be repurchased for the price paid and cancelled upon completion of the Plan of Reorganization.

The Holding Company has not yet engaged in any business activity and, at present, has no plans to engage in any activities other than acting as a holding company for the capital stock of the Bank. The Holding Company does not contemplate any substantial expenditures for equipment, plant, or additional property in the near future. However, the Board of Directors of the Holding Company may determine in the future to utilize the Holding Company structure to diversify its activities in accordance with the Bank Holding Company Act of 1956, as amended. The principal operating expense of the Holding Company will be the annual corporate franchise tax required to be paid to the Texas Comptroller of Public Accounts, which will be deductible by the Holding Company for federal income tax purposes. The franchise tax is currently assessed at a rate of $4.25 per $1,000 of the Holding Company's capital, surplus, and undivided profits. The estimated franchise taxes payable by the Holding Company for the first year of its operations will amount to approximately $8,327.87.

Supervision and Regulation

As a bank holding company, the Holding Company will remain subject to regulation by the Board of Governors

of the Federal Reserve System (hereinafter "Board") in accordance with the provisions of the Bank Holding Company Act, as amended, and the rules and regulations promulgated thereunder. Existing regulations require the Holding Company to file reports with the Board and submit to periodic examinations of its affairs by the Board. In addition, prior Board approval is required for any acquisition by the Holding Company of more than 5% of the stock of any bank or other bank holding company. The Holding Company is also prohibited from acquiring a direct or indirect interest in or control of more than 5% of the voting shares of any company which is not a bank, including any foreign company, and from engaging directly or indirectly in activities other than that of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, the Holding Company may engage in, and may own shares of companies engaged in, certain activities found by the Board to be "so closely related to banking or managing or controlling banks as to be a proper incident thereto."

The permitted non-banking activities are (1) making loans that would be made by mortgage, finance, credit card or factoring companies; (2) operating as an industrial bank; (3) servicing loans; (4) performing the functions of a trust company; (5) acting as an investment or financial advisor; (6) leasing personal or real property; (7) making investments to promote community welfare; (8) providing bookkeeping or data processing services; (9) acting as insurance agent or broker with respect to insurance that is directly related to the extension of credit or other financial services; (10) acting as an underwriter for credit life insurance and credit health and accident insurance directly related to extensions of credit by the holding company system; (11) providing courier services for the interna-

operations of the holding company system for checks and certain other instrument exchanges among banks and for audit and accounting media of a banking or financial nature; (12) providing certain kinds of management consulting advice, under specified conditions, to unaffiliated banks and nonbank depository institutions; (13) sale at retail of money orders having a face value of not more than $1,000, and the sale of Unitaed States savings bonds, and the issuance and sale of traveler's checks; and (14) real estate appraisal. An application may also be filed as to other activities in a particular case, but the Federal Reserve Board will publish a notice of opportunity for hearing only if it believes that there is a reasonable basis for concurring in the Holding Company's opinion that the activity applied for is closely related to banking. The Board has stated that at present, the permissible activities of a holding company do not include real estate brokerage and syndication, land development, property management, underwriting or operating of savings and loan operations, management consulting or industrial development corporations.

The Texas Banking Code of 1943, as amended, grants to the Banking Commissioner of the State of Texas the authority to disapprove any acquisition or activity governed by Section 4 of the Bank Holding Company Act of 1956, as amended, which regulates nonbanking organizations, by a bank holding company doing business in the State of Texas, unless the Banking Commissioner finds that it can reasonably be expected to produce benefits to the public, such as greater convenience or increased competition, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

Management and Principal Shareholders

The table below sets forth the name, address, position, principal occupation, and maximum ownership of the Holding Company's common stock of each executive officer and director upon consummation of the proposed Plan:

Name and Address	Position	Shares of Common Stock to be Owned	Principal Occupation	Percent of Class
Harris R. Fender P.O. Box 449 Tyler, TX 75710	President and Director	14,325	Investments	38.20
Harris R. Fender, Jr. P.O. Box 449 Tyler, TX 75710	Director	3,357	Doctor	8.95
David M. Fender P.O. Box 449 Tyler, TX 75710	Director	3,359	Oil & Gas Operator	8.96
Charles R. Wooldridge 25 Regatta Place Rt. 1 Flint, TX 75762	Director and Secretary	0	President of Bank Management Services Company	0

The number of shares beneficially owned by the directors and officers of the Holding Company as a group after consummation will be 21,041. The directors and officers of the Holding Company as a group will own 56% of the common stock of the Holding Company after consummation. Mr. Fender has a life estate in 9,484 of the total 14,325 shares owned by him. Harris R. Fender, Jr. and David M. Fender each have a remainder interest in 4,742 of those shares.

In the event Directors R. S. Martin and Ruben Martin, III exercise their dissenting shareholders' rights, the Holding Company will pay to them the value of their shares to be determined by the procedures set forth in 12 U.S.C. 215. As therein provided, the shares of Holding Company stock which would have been delivered to them had they not exercised their dissenters' rights, will be sold at a public auction. The Holding Company has the right to purchase those shares.

Principal Security Holders of the Company

At present, Mr. Harris R. Fender is the sole shareholder of the Holding Company, owning all 1,000 shares of the issued and outstanding common stock of the Holding Company. Mr. Fender acquired these shares in June, 1982, for an aggregate consideration of $1,000 solely for the purpose of perfecting the corporate organization of the Holding Company. These shares are to be repurchased and cancelled by the Holding Company following the consummation of the Plan.

Following the consummation the Principal Shareholders of the Holding Company will be Harris R. Fender, Harris R. Fender, Jr., and David M. Fender. See

"Description of Kilgore First Bancorp, Inc.—Management and Principal Shareholders."

Compensation of Officers and Directors

No compensation is expected to be paid for the services of officers or directors of the Holding Company during the first year of its operations, except for compensation paid to such individuals for services rendered as officers or directors of the Bank. In the event that compensation will be paid to the officers and directors of the Holding Company in the future, such compensation will be reasonably related to the time and effort expended in rendering services to the Holding Company and the benefit to the Holding Company of the services provided therein.

DESCRIPTION OF CAPITAL STOCK

The Holding Company is authorized to issue two classes of stock, designated as "common stock" and "cumulative preferred stock." The total number of shares of stock which the Holding Company is authorized to issue is 2,000,000 shares. The number of shares of common stock authorized is 1,000,000 shares with a par value of $1.00 per share. The number of shares of preferred stock authorized is 1,000,000 with a par value of $1.00 per share. The existing and pro forma capitalization of the Holding Company is set forth in the table below.

Title or Class of Securities	No. of Shares Authorized	No. of Shares Outstanding on Sept. 1, 1982	No. of Shares to be Outstanding if Offer is Accepted by All Eligible Shareholders of Bank
Common Stock $1.00 par value	1,000,000	1,000*	37,500
Cumulative Preferred Stock, $1.00 par value	1,000,000	0	0

* Represents shares issued to one of the organizers of the Holding Company solely for the purpose of perfecting its corporate organization. These shares will be repurchased for the price paid and cancelled upon completion of the Plan.

Description of Preferred Stock

The Articles of Association of the Holding Company authorize the Board of Directors to issue the preferred stock in different series and to set the followinng terms of the preferred stock, which may be different in each series:

(a) the rate of dividend;

(b) the price and the terms and conditions on which shares may be redeemed;

(c) the amount payable upon shares in event of involuntary or voluntary liquidation;

(d) sinking funds provisions for the redemption or purchase of shares;

(e) the terms and conditions on which shares may be converted, if the shares of any series are issued with the privileges of conversion; and

(f) voting rights.

The preferred stock is senior to the common stock and thus, the rights of the common shareholder to dividends and assets on liquidation would be subject to the rights of preferred shareholders. Because no preferred stock has been issued, the Board of Directors has not established and designated the terms of the preferred stock.

Dividend Rights

The holders of the preferred stock of each series shall be entitled to receive, when and as declared by the Board of Directors, cumulative preferential dividends at the rate per annum fixed for such series. Dividends on shares of preferred stock of each series shall accrue from the date of the initial issue of shares of such series, or from such other date as may be fixed by the Board of Directors, shall be cumulative and shall be payable quarterly. So long as any shares of preferred stock are outstanding, the Holding Company may not pay or declare any cash dividends on the common stock unless all dividends on the preferred stock have been paid as declared and set apart for payment and there is no default with respect to any sinking fund or purchase fund for the redemption of shares of preferred stock.

Voting Rights

The Board of Directors is vested with authority to adopt resolutions to define the voting rights of the holders of preferred stock. Changes in any of the designations, preferences, limitations and relative rights of the preferred stock may be made with the affirmative vote of the holders of at least two-thirds of the issued and outstanding shares of preferred stock. However, neither the rate of dividends nor the amount payable upon the redemption on voluntary or involuntary liquidation on any shares of preferred stock may be reduced without the consent of the holders thereof.

Redemption

The Holding Company, at the option of the Board of Directors, may redeem the preferred stock of any series which by its terms is redeemable and on the terms and conditions fixed for such series. At least twenty and not more than fifty days' previous notice of any such redemption shall be given to holders of the preferred stock.

Liquidation or Dissolution Rights

Before any distribution is made to the holders of any class of stock ranking junior to the preferred stock, the holders of the preferred stock are entitled to receive in full the redemption amount in addition to a sum equal to the accrued and unpaid dividends unpaid thereon to the date of final distribution upon any liquidation, dissolution, or winding up of the affairs of the Holding Company.

Preemptive Rights

The holders of preferred stock are not entitled to any

preemptive right to subscribe for or purchase any securities.

Description of Common Stock

Dividend Rights

Subject to the prior and superior rights of holders of all shares of preferred stock of the Holding Company that may be outstanding from time to time, the holders of shares of common stock will be entitled to receive dividends thereon if and when declared payable by the Board of Directors.

Voting Rights

Subject to the voting rights which the Board of Directors may prescribe for any series of preferred stock, the holders of common stock shall exclusively possess full voting rights for the election of Directors and for all other purposes. Shareholders of the Holding Company will not be entitled to cumulative voting rights in the election of directors.

Liquidation Rights

After payment shall have been made in full to the holders of the preferred stock in the event of any liquidation, dissolution or winding up of the affairs of the Holding Company, the remaining assets and funds of the corporation shall be distributed pro rata among the holders of the common stock according to their respective shares.

Preemptive Rights

The holders of common stock of the Holding Company are not entitled to any preemptive right to subscribe for or purchase any securities.

Miscellaneous

The balance of the authorized Holding Company common stock and preferred stock will be available for issuance by the Board of Directors to raise additional capital for acquisition or for any other proper Holding Company purpose. As stated elsewhere in this Proxy Statement, the Board of Directors have no specific plans, commitments or arrangements to issue any such stock.

Reports

The Holding Company will be required to file annual, quarterly and other periodic financial and other reports required by the Securities Exchange Act of 1934. If, at the end of any fiscal year the Holding Company has less than 300 holders of any class of security, it may cease to file such reports. Unless the Holding Company has more than 500 holders of any class of security, it will not be subject to the proxy and tender offer rules promulgated pursuant to the Securities Exchange Act of 1934 nor will directors, officers or Principal Shareholders be subject to the "insider trading" provisions of that Act. It is expected that after consummation of the Plan of Reorganization, the Holding Company will have approximately 145 holders of common stock.

The Holding Company also will furnish its shareholders with annual reports containing financial statements.

Property

The Holding Company owns no properties. In the event that its business will require office space, the amount will be minimal, and will be located in the office building of the Bank.

Legal Proceedings

The Holding Company is not a party to any pending legal proceedings before any court, administrative agency or other tribunal. Further, the Holding Company is not aware of any litigation which is threatened against it in any court, administrative agency, or other tribunal.

Financial Statements

Set forth below are pro-forma financial statements for the Holding Company on a parent company only and on a consolidated basis.

FINANCIAL STATEMENTS FOUND ON PROSPECTUS PAGES 29 THROUGH 39 HAVE BEEN INTENTIONALLY OMITTED.

DESCRIPTION OF NEW KILGORE FIRST STATE BANK

At the direction of the Board of Directors of the Holding Company, six individuals, Harris R. Fender, D. R. Brogoitti, David M. Fender, Harris R. Fender, Jr., Charles R. Wooldridge, and James W. Capps, have filed an application to charter New Kilgore First State Bank with the Commissioner of the Texas Department of Banking. The Interim Bank will conduct no business with the public and

was chartered solely to effectuate the Plan of Organization. After the consolidation, the organizers of the Interim Bank will resign their positions as directors.

The minimum capital required to organize the Interim Bank is $5,000. To raise this capital, the Holding Company will obtain a loan from a third-party bank and will purchase 5,000 shares, par value $1.00, of the stock of the Interim Bank.

After the consolidation, the Interim Bank will issue a dividend in the sum of $5,000 to the Holding Company which will in turn use the sum to repay the loan from the third-party bank.

DESCRIPTION OF KILGORE FIRST NATIONAL BANK

History

Kilgore First National Bank is located at 910 North Kilgore Street, Kilgore, Texas. Kilgore is located in Gregg County and has a population of approximately 10,000.

The Bank was established in 1906 and, since that date, it has experienced continuous growth.

Business

The Bank offers a diversified range of commercial banking services for customers principally in Gregg County. These services include the usual deposit functions of commercial banks with savings departments: the making of commerical, consumer, industrial, agricultural, and real estate loans, collections, escrow services, and safe deposit facilities.

The following table shows the growth of the Bank over the past five years (all amounts shown are as of December 31st of the year indicated):

	(in thousands of dollars)				
	1977	1978	1979	1980	1981
Assets	$52,484	$59,044	$69,100	$78,125	$105,161
Deposits	45,537	52,080	61,576	68,978	93,354
Loans*	28,178	33,461	38,270	43,569	57,052
Securities (Municipal)	10,585	10,278	12,753	18,083	30,284
Capital Accounts	5,008	5,806	6,832	8,160	9,736

* Loans exclude federal funds sold and other money market obligations.

Additional information concerning the financial condition and performance of the Bank will be found in the financial statements of the Bank that accompany this Prospectus.

Competition

The Bank will encounter competition in its commercial banking business from savings and loan associations, credit unions, and certain other financial institutions.

The Bank will also face substantial competition from national banks, state banks, savings and loan associations, and credit unions for time and savings deposits, checking or draft accounts, loans, and other deposits. With respect to certain of its services, including but not limited to loans, and particularly with respect to securing funds available for deposits, the Bank will be faced with competition from

other financial institutions such as insurance companies, consumer and business finance or loan companies, industrial loan associations, real estate investment trusts, pension funds, mortgage companies, and credit card organizations. The national equity and debt securities markets also compete for available funds.

Some of the Bank's competitors may offer a total range of services which it does not propose to offer or is unable to offer, and these competitors may thus enjoy a competitive advantage over the Bank. Furthermore, certain provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980 which allow, among other things, the establishment of accounts ("NOW Accounts") in non-bank depository institutions which have some of the characteristics of demand accounts in banks, may serve to increase competition between banks and other financial institutions. The Bank anticipates that it will be able to maintain profitability in the face of this heightened competition, but the long-term effects of the new law are difficult to assess.

The Bank ranks as the fourth largest bank (on the basis of total deposits) in Gregg County, holding approximately 13% of the aggregate deposits held by the fourteen commercial banks in that county.

Employees

As of April 30, 1982, the Bank employed 80 persons. Employees of the Bank are entitled to dental, medical and life insurance benefits and to a profit-sharing plan.

Properties

The Bank is situated on a four acre lot at the corner

of Highway 42 and Kilgore Street in Kilgore, Texas. The buidling is a two story structure of approximately 12,000 square feet.

The Bank has an eight lane motor bank facility as well as a commercial mini lobby with three tellers in a high security environment. The Bank also has a mini-bank lobby with three tellers in an adjacent shopping center and has an automated teller machine (on the Teller 24 network) on its property.

Regulation and Supervision

Kilgore First National Bank, as a national banking association, is subject to various requirements and restrictions under the banking laws of the United States and is subject to regulation, supervision, and regular examination by the Comptroller of the Currency. The Bank is also subject to examination and regulation by the Federal Deposit Insurance Corporation, which insures the Bank's deposits.

As a national bank, the Bank is subject to certain restrictions imposed by the Federal Reserve Act and other national banking laws, including those on any extensions of credit to any affiliates, on any investments in the stock or other securities of affiliates, on the taking of such stock or securities as collateral for loans to any borrower, and on the total obligation of any one person or entity which may be outstanding to a bank at any one time.

The business of national banks is affected in important respects by the policies of monetary authorities, and particularly the Federal Reserve System. An important function of the Federal Reserve System is to regulate the national supply of bank credit in order to achieve, among

other things, maximum employment and a stable price level. Among the instruments of monetary policy used by the Federal Reserve System to implement these objectives are open market transactions in United States Government securities, changes in the discount rate on member bank borrowings, changes in reserve requirements against member bank deposits and limitations on interest rates which member banks may pay on time and savings deposits. These means are used in varying combinations to influence overall growth of bank loans, investments, and deposits, and they may also affect interest rates charged on loans or paid for deposits.

The monetary policies of the Federal Reserve System have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. In view of changing conditions in the national economy, in the money markets, and in the relationships of international currencies, as well as the effect of actions by monetary and fiscal authorities including the Federal Reserve System, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand, capital requirements, or the business and earnings of the banks.

Litigation

Since Kilgore First National Bank acts as a depository of funds, the Bank is named as a defendant in numerous law suits involving claims to the ownership of funds in particular accounts. All such litigation is incidental to the Bank's business. The management of the Bank believes that no litigation is threatened or pending in which the Bank would face potential exposure which would materially affect the shareholder's equity or its financial position as presented herein.

Management of Kilgore First National Bank

The table below sets forth the name, address, position, principal occupation, and ownership of the common stock of Kilgore First National Bank by each officer, director, and principal (5% or more) shareholder.

Name and Address	Position	No. of Shares of Common Stock held as of 5/27/82	Principal Occupation	Percent of Class
Harris R. Fender P.O. Box 449 Tyler, TX 75710	Chairman, Director	14,325[1]	Investments	38.2
R.S. Martin, III 1112 Azalea Longview, TX 75601	Director	50	Vice President, Martin Gas Sales, Inc.	.13
R.S. Martin, Jr. P.O. Box 191 Kilgore, TX 75662	Director	1,494	President, Martin Gas Sales, Inc.	3.98
D.R. Brogoitti 2803 Crestwood Kilgore, TX 75662	President, Director	59	Banking	.16
R.E. Spradlin P.O. Box 1620 Kilgore, TX 75662	Director	50	President East Texas Lumber Co.	.13

[1] Mr. Fender owns 9,484 shares subject to a remainder interest.

M.L. Still P.O. Box 654 Kilgore, TX 75662	Director	183	Investments	.48
David M. Fender P.O. Box 449 Tyler, TX 75710	Advisory Director	3,359	Oil & Gas Investments	8.96
Harris R. Fender, Jr. P.O. Box 449 Tyler, TX 75710	Advisory Director	3,357	Physician	8.95
James W. Capps 2806 Crestwood Kilgore, TX 75662	Executive Vice President, Advisory Director	0	Banking	0
T.J. Craver 103 Eastridge Kilgore, TX 75662	Secretary	27	Banking	0
Doyle Freeman 2307 Ivy Street Kilgore, TX 75662	Vice President	10	Banking	0
Hunter Parks P.O. Box 1252 Kilgore, TX 75662	Advisory Director	50	Oil & Gas	.13
Joe M. Pearson P.O. Box 918 Kilgore, TX 75662	Advisory Director	50	Banking Investments	.13

C.R. Wooldridge P.O. Box 449 Tyler, TX 75710	Advisory Director	0	President, Bank Management Services Company, Tyler, Texas	0
Ivan M. Kerr P.O. Box 1342 Kilgore, TX 75662	Advisory Director	50	President Kerr Engineering & Construction Co., Inc.	.13
Clarence H. Laird P.O. Box 456 Kilgore, TX 75662	Vice President	40	Banking	.11
O. W. Potter P.O. Box 1578 Kilgore, TX 75662	Advisory Director	0	President Woodbine Production Co. (Oil & Gas)	0
Payton McKnight P.O. Box 1031 Tyler, TX 75710	Advisory Director	0	Independent Oil & Gas Operator	0
J.L. Blair P.O. Box 520 Kountze, TX 77625	Advisory Director	0	Kountze Insurance Agency	0
C.W. Rhodes P.O. Box 961 Kilgore, TX 75662	Advisory Director	0	President Dusty Rhodes Ford, Inc.	0

Bob Barbee P.O. Box 1923 Kilgore, TX 75662	Advisory Director	0	President Oil Patch Pipe & Supply	0
Archie Young P.O. Box 488 Carthage, TX 75633	Advisory Director	0	President, Drew Wood, Inc. (mechanical contracting)	0
James D. Berry, Jr. 2 Turtle Creek Village, Suite 1124 Dallas, TX 75219	Advisory Director	0	President Berry Brothers Petroleum, Inc.	0
Frank E. Brown P.O. Box 1094 Kilgore, TX 75662	Advisory Director	0	President Brown Measurement & Equipment Co. (Oil & Gas)	0

After the consolidation, each of the individuals listed above will have the right to exchange his shares of stock of the Bank for shares of the Holding Company's common stock and receive either Subordinated Debentures or the right to have indebtedness assumed, as the case may be. See "The Plan of Reorganization." Each of these individuals will then hold the same amount of common stock in the Holding Company as he now holds in the Bank. The number of shares beneficially owned by the directors and officers of the Bank as a group is 16,202. The directors and officers of the Bank as a group own 43.20% of the common stock of the Bank.

Capital Structure of the Bank

The Articles of Association of the Bank authorize the issuance of 37,500 shares of common stock, par value $20.00, all of which are issued and outstanding. The table below sets forth the capitalization of the Bank on September 1, 1982.

Title or Class of Securities	No. of Shares Authorized	No. of Shares Outstanding on Sept. 1, 1982
Common Stock $20.00 par value	37,500	37,500

Remuneration of Directors and Principal Officers

The aggregate compensation paid to all of the directors and principal officers of the Bank, including discretionary cash bonuses and director's fees for the last fiscal year amounted to a total of $442,225. The sum $70,745 has been allocated to the pension and retirement benefit plan of the officers of the Bank. No officer or director received aggregate annual compensation in excess of $50,000 for the year.

Transactions with Directors, Officers and Associates

Certain of the officers, directors and principal shareholders of the Bank (and their associates) have deposit accounts and other transactions with the Bank including loans in the ordinary course of business. An "associate" includes a corporation or other entity of which an officer or director of the Bank is an officer, partner or 10% shareholder, any trust or estate of which he is a

trustee, executor or significant beneficiary, or any relative or spouse, or spouse's relative who lives in his home.

All loans or other extensions of credit made by the Bank from 1978 to present to officers, directors, principal shareholders of the Bank and to associates of such persons were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions transactions with persons other than aforementioned and did not involve more than the normal risk of collectibility or present other unfavorable features.

The Bank expects to continue to have such transactions on similar terms with its directors and their associates in the future. As of June 15, 1982, the Bank had an aggregate total of approximately $54,511,059 in loans outstanding; approximately $717,647 or 1.18% of this total constituted loans to officers and directors.

Trusteed Affiliate

Kilgore First Corporation (hereinafter "KFC") was organized by the Board of Directors of the Bank of July 9, 1969 as a trusteed affiliate for the sole use and benefit of the shareholders of the Bank. KFC was organized to buy, sell, lease, hold or otherwise encumber both real and personal property of all descriptions.

KFC has 37,500 shares authorized at no par value.

The officers and directors of KFC are as follows:

Name and Address	Position
Harris R. Fender P.O. Box 449 Tyler, TX 75710	Chairman of the Board and Director
C. R. Wooldridge P.O. Box 449 Tyler, TX 75710	President and Director
D. R. Brogoitti 2803 Crestwood Kilgore, TX 75662	Vice President and Director
David M. Fender P.O. Box 449 Tyler, TX 75710	Vice President and Director
H. R. Fender, Jr. P.O. Box 449 Tyler, TX 75710	Vice President and Director
James W. Capps 2806 Crestwood Kilgore, TX 75662	Vice President, Secretary/ Treasurer, Agent and Director
Joe M. Pearson P.O. Box 918 Kilgore, TX 75662	Advisory Director

Since the creation of KFC it has engaged in the following real property transactions:

August 1, 1969	Purchase of 8.255 acres of land for future construction
August 16, 1972	The sale of 2.835 acres of land to the Bank to be used for the Bank's new building.

January 12, 1977	KFC obtained a $1,000,000 loan from American Amicable Life Insurance Company to be used for the construction of a shopping center.
December 19, 1979	KFC sold a triangular tract of land to the Bank for the expansion of the Bank's motor bank facilities

On January 13, 1982, each shareholder of the Bank received one share of KFC for each share of the Bank owned.

Financial Information

Set forth below are summarized financial information and the management's analysis of the financial condition and operations of the Bank.

FINANCIAL STATEMENTS FOUND ON PROSPECTUS PAGES 49 THROUGH 64 HAVE BEEN INTENTIONALLY OMITTED.

COMPARISON BETWEEN HOLDING COMPANY STOCK AND STOCK OF KILGORE FIRST NATIONAL BANK

The Holding Company's Articles of Association authorize the issuance of 1,000,000 shares of common stock, par value $1.00, and 1,000,000 shares of cumulative preferred stock, par value $1.00. If the Plan of Reorganization is effected, 37,500 shares of common stock of the Holding Company will be issued and outstanding (less dissenters' shares, if any).

Authorized But Unissued Stock

The Articles of Association of the Bank authorize the issuance of 37,500 shares of common stock, par value $20.00, all of which are issued and outstanding. The Articles further provide that the numbe of shares of capital stock may be increased or decreased in accordance with the provisions of the laws of the United States of America. As permitted by Texas law, the Holding Company may issue additional shares of stock up to the total amount of common stock and preferred stock authorized without obtaining prior approval of the shareholders. However, at this time the Holding Company has no intention to issue any additional stock.

Dividend Rights

The holders of common stock of the Bank are entitled to dividends when, as and if declared by the Bank's Board of Directors out of funds legally available therefore. The National Bank Act requires the approval of the Comptroller of the Currency for payments of dividends by a national bank of dividends declared in any year which exceed the total of net profits for that year combined with retained net profits for the preceeding two years, plus any required transfer to surplus.

Similarly, the holders of the Holding Company common stock will be entitled to dividends when, as and if declared by the Holding Company's Board of Directors out of funds legally available therefore.

If the Plan is consummated, the Holding Company's Board of Directors may determine that it is in the best interest of the Holding Company and its shareholders not to

pay dividends to its shareholders if the funds otherwise to be used for the payment of such dividends are required to service the debt to be incurred by the Holding Company. Therefore, shareholders of the Holding Company will not receive dividends until the debt level of the Holding Company is substantially reduced. The amount of dividends, if any, that may be declared by the Holding Company will necessarily be dependent on may factors, including future earnings, capital requirements and business conditions as they affect the Bank, since the Holding Company is dependent upon dividends paid by the Bank for its revenues. In addition, the ability of the Holding Company to pay dividends will be affected by fluctuations in the interest rates which will determine the amount of interest expense which the Holding Company must pay from time to time on its indebtedness.

Voting Rights

The holders of common stock of the Bank are entitled to one vote per share. Similarly, the holders of the Holding Company's common stock are entitled to one vote per share. In the event the Board of Directors of the Holding Company determine to issue preferred stock, holders of such stock would have no voting rights for those shares unless expressly provided for by the Board of Directors.

In accordance with the By-Laws of the Bank, shareholders may submit proposals for consideration at the regularly scheduled annual meeting of the Bank if the proposals are submitted at least twenty-one days before the date of the annual meeting. The annual meeting of the Bank is held on the third Wednesday in March.

As provided by Texas law, the Holding Company

may consolidate or merge with or into another corporation upon approval of the plan of merger or consolidation by the affirmative vote of the holders of at least two-thirds of the outstanding shares of the Holding Company. Texas law additionally provides that each outstanding share of the Holding Company shall be entitled to vote on the proposed plan of merger or consolidation, whether such share has voting rights under the provisions of the Articles of Incorporation of the Holding Company. With respect to the merger or consolidation of the Bank, the National Bank Act provides that a national banking association may merge or consolidate with a national banking association or a bank incorporated under the laws of any state with the affirmative vote of the shareholders of each such association or bank owning at least two-thirds of its capital stock outstanding. Both the laws of the State of Texas and the National Bank Act provide that dissenting shareholders have appraisal rights with respect to mergers and consolidations. See "Appraisal Rights of Dissenting Shareholders."

Cumulative Rights

As required by the National Bank Acr, shareholders of the Bank have cumulative voting rights in the election of Directors. However, the Articles of Incorporation of the Holding Company provide that cumulative voting shall not be permitted.

Preemptive Rights

Shareholders of the Bank presently have preemptive rights to subscribe to any additional issue of stock. However, as permitted by Texas law, the Articles of Incorporation of the Holding Company provide that no share-

holder shall be entitled to subscribe to any additional issue of stock of any class of the capital stock of the Holding Company.

Liquidation Rights

In the event of liquidation, the shareholders of the Bank are entitled to receive pro rata any assets distributable to the shareholders. Shareholders of common stock of the Holding Company have similar rights on liquidation, but they are subject to any prior rights of preferred shareholders. See "Description of Kilgore First Bancorp, Inc.—Description of Preferred Stock."

Assessment and Redemption

Shares of the common stock of the Bank are fully paid and nonassessable. Similarly, shares of Holding Company stock to be issued and delivered if the Plan of Organization is effected will be fully paid and nonassessable.

The Holding Company may redeem its shares without the approval of its shareholders and, in most instances, without the prior approval of the Federal Reserve Board.

Shares of the Bank may be redeemed with the prior approval of two-thirds of its shareholders.

OTHER MATTERS

This Special Meeting is called for the purpose set forth in the notice. The management of the Bank does not know of any matter for action by the shareholders at the meeting other than the matters described in the notice.

However, the enclosed Proxy will confer discretionary authority with respect to matters which are not known to the management at the time of printing hereof and which may properly come before the meeting. It is the intention of the persons named in the Proxy to vote in pursuance of the Proxy in accordance with the recommendation of the management.

Legal Opinions

Legal matters in connection with the Plan of Organization have been passed upon for the Holding Company by Messrs. Ford, Reiff & Burgess, Attorneys at Law, 1400 United Bank Tower, Austin, Texas.

Experts

The financial statements of the Bank included herein have been examined to the extent and for the period indicated in the reports of Don C. Horton and Co., Independent Certified Public Accountants, and have been included herein in reliance upon the reports of said firm and upon the authority of said firm as experts in accounting and auditin. It is not anticipated that representatives of Don C. Horton & Co. will attend the shareholders' meeting, but such representatives will be available to respond to appropriate questions.

Indemnification

The registrant has no provisions relating to the indemnification of directors, officers or controlling persons against liability arising under the Securities Act of 1933.

Insofar as indemnification for liabilities arising

under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy and is therefore unenforceable.

Interests of Named Experts and Counsel

No expert named in the registration statement as having prepared or certified any part thereof was employed for such a purpose on a contingent basis, nor at the time of such preparation or certification had a substantial interest in the registrant or any of its parents or subsidiaries nor was connected with the registrant or any of its subsidiaries as a promoter, underwriter, voting trustee, director, officer, or employee.

APPENDIX A

Agreement and Plan of Consolidation

AGREEMENT AND PLAN OF CONSOLIDATION

AGREEMENT AND PLAN OF CONSOLIDATION made this 16th day of September, 1982, between Kilgore First National Bank ("Existing Bank") and New Kilgore First State Bank ("New Bank") and joined in by Kilgore First Bancorp, Inc., a Texas coraporation ("Company").

WITNESSETH

A. Existing Bank is a national banking association duly organized and existing under the laws of the United States of America.

B. New Bank is a state banking association organized under the Texas Banking Code of 1943, as amended.

C. Existing Bank has, and will have as of the Effective Time (hereinafter defined in paragraph 12), authorized capital stock of 37,500 shares of common stock, $20.00 par value ("Existing Bank Common Stock"), all of which 37,500 shares have been duly issued and are, and will be as of the Effective Time, validly outstanding.

D. New Bank will have as of the Effective Time authorized capital stock of 5,000 shares of common stock, $1.00 par value ("New Bank Common Stock"), of which 5,000 shares are, or will be as of the Effective Time, issued and outstanding. All of the issued and outstanding shares of New Bank are owned by Company.

E. Company is a corporation duly organized and existing under the laws of the State of Texas with authorized capital stock consisting of 1,000,000 shares of Common

Stock, $1.00 par value ("Company Common Stock") and 1,000,000 shares of Cumulative Preferred Stock, $1.00 par value ("Company Preferred Stock") and with authorized 12% Subordinated Debentures (the "Company Debentures") in the aggregate amount of $1,777,900. As of the Effective Time the Company has 1,000 shares of Common Stock outstanding.

F. Majorities of the Boards of Directors of Existing Bank and of New Bank have approved this Consolidation Agreement under which New Bank shall be consolidated with Existing Bank and have authorized the execution hereof; and the Board of Directors of Company has approved this Consolidation Agreement, authorized Company to join in and be bound by this Consolidation Agreement, and authorized the undertakings herein made by Company.

NOW, THEREFORE, in consideration of the premises, Existing Bank and New Bank, joined by Company, hereby agree that New Bank shall be consolidated with Existing Bank on the following terms and conditions:

1. **Consolidation.** At the Effective Time, New Bank shall be consolidated with Existing Bank under the Articles of Association of Existing Bank. Said consolidation shall be pursuant to the provisions of and with the effect provided in Section 215 of Title 12, United States Code.

2. **Continuing Bank.** At the Effective Time, the name of Existing Bank (hereinaftear referred to as "Continuing Bank" whenever reference is made to it as of the time of consolidation or thereafter) shall be "Kilgore First National Bank." The Articles of Association of Continuing Bank shall be the same as the Articles of Association of Existing Bank at the time of the consolidation. The bylaws of

Existing Bank in effect immediately prior to the consolidation shall become the bylaws of Continuing Bank. The established office and facilities of Existing Bank immediately prior to the consolidation shall become the established office and facilities of Continuing Bank.

3. **Property and Rights of Continuing Bank.** At the Effective Time, the corporate existence of Existing Bank and New Bank shall as provided in Section 215 of Title 12, United States Code, be consolidated with and become Continuing Bank; and Continuing Bank shall be deemed to be the same corporation as Existing Bank and New Bank. All rights, franchises and interests of Existing Bank, respectively, in and to every type of property (real, personal and mixed) and choses in action shall be transferred to and vested in Continuing Bank by virtue of such consolidation without any deed or other transfer. Continuing Bank at the Effective Time and without any order or other action on the part of any court or otherwise, shall hold and enjoy all rights of property, franchises and interests, including appointments, designations, and nominations, and all other rights and interests as trustee, executor, administrator, transfer agent and registrar of stocks and bonds, guardian of estates, assignee, receiver, and in every other fiduciary capacity, and in every agency capacity, in the same manner and to the same extent as such rights, franchises and interests were held or enjoyed by Existing Bank and New Bank, respectively, at the Effective Time.

4. **Liabilities of Continuing Bank.** At the Effective Time, Continuing Bank shall be liable for all liabilities of Existing Bank and of New Bank, respectively; and all deposits, debts, liabilities, obligations and contracts of Existing Bank and of New Bank respectively, matured or unmatured, whether accrued, absolute, contingent or

otherwise, and whether or not reflected or reserved against on balance sheets, books of account or records of Existing Bank or New Bank, as the case may be, including all liabilities of Existing Bank and the New Bank for taxes, whether existing at the Effective Time or arising as a result of or pursuant to the consolidation, shall be those of Continuing Bank and shall not be released or impaired by the consolidation; and all rights of creditors and other obligees and all liens of property of either Existing Bank or New Bank shall be preserved unimpaired.

5. **Directors, Advisory Directors and Officers of Continuing Bank.** The directors, advisory directors and officers of Continuing Bank at the Effective Time shall be those persons who are directors, advisory directors and officers, respectively, of Existing Bank immediately before the Effective Time. The committees of the Board of Directors of Continuing Bank at the Effective Time shall be the same as, and shall be composed of the same persons who are serving on, committees of the Board of Directors of Existing Bank as they exist immediately before the Effective Time.

6. **Exchange and Consideration.** At the Effective Time:

(a) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time shall be redeemed and cancelled and shall be exchangeable for $1.00 in cash, and such shares shall revert to the status of authorized but unissued shares without any action by the holder thereof.

(b) Shares of the authorized but unissued common stock of the Company shall be deemed to be issued in respect to the shares of Existing Bank

Common Stock exchanged therefor under subparagraph (c) below.

(c) Except as otherwise set forth below, the shares of the Existing Bank Stock which are owned beneficially on the Effective Date by each shareholder of the Existing Bank and all rights in respect of such shares of Existing Bank Stock, shall, without any action on the part or the holder thereof, be converted into and exchanged for the following:

(i) One (1) share of Company Common Stock; and

(ii) Consideration equal in aggregate value to $98.67 multiplied by the number of shares of Existing Bank Stock owned by such shareholder of the Existing Bank which shall be composed of the following kinds of consideration:

(1) The right to have assumed and discharged by Company indebtedness related to the acquisition of the shares of Existing Bank Stock owned by such shareholder of the Existing Bank which was in existence on September 1, 1982, ("Assumable Debt"); or

(2) to the extent that Assumable Debt is less than $98.67 multiplied by the number of shares owned by such Eligible Stockholder, a Company Debenture in a principal amount equal to the difference between the actual amount of Assumable Debt and $98.67 multiplied by the number of shares of Existing Bank Stock owned by such Eligible Stockholder will be issued to such

Eligible Stockholder. The Company Debentures shall be issuable only in denominations of $100 or a multiple thereof. To the extent Company Debentures are issuable to a shareholder of the Bank in a principal amount other than $100 or a multiple thereof, the difference between the principal amount of the Debenture otherwise issuable to the shareholder of the Existing Bank and the greatest multiple of $100 which shall be less than such principal amount shall be paid in cash to the shareholder of the Existing Bank.

(iii) No fractional shares of Company shall be issued, but each shareholder entitled to a fractional share shall be paid the cash equivalent of such fractional share based upon the net book value per share of Existing Bank Stock at the effective date.

(d) The shares of New Bank Common Stock outstanding at the Effective Time shall be converted into shares of Continuing Bank; with the effect that the number of shares of the capital stock of Continuint Bank outstanding immediately after the Effective Time shall be equal to the number of shares of Existing Bank Common Stock outstanding immediately before the Effective Time.

(e) The capital of New Bank shall become a part of the unrestricted capital surplus of Continuing Bank.

(f) The shares of New Bank Common stock issued and outstanding at the Effective Time, as converted pursuant to sub-section (d) of this Section 5, shall continue to be issued and outstanding shares of Continuing Bank.

7. **Stock Transfer.** After the Effective Time:

(a) Each holder of an outstanding certificate or certificates which prior thereto represented shares of Existing Bank Common Stock, may surrender the same to Company, and each such holder shall be entitled upon such surrender to receive from Company in exchange therefor, without cost to him, a certificate or certificates, representing the number of shares of Company Common Stock into and for which the shares of Existing Bank Common Stock so surrendered shall have been converted and exchanged as aforesaid, of such denominations and registered in such names as such holder may request. If such shares are to be issued to a person other than a person in whose name the certificate surrendered in exchange therefor is registered, it shall be a condition of such issuance that the certificate so surrendered shall be properly endorsed and otherwise in proper form for transfer, and that the person requesting such exchange pay to Company any transfer or other taxes required by reason thereof, or establish to the satisfaction of Company that such taxes have been paid or are not payable. Until so surrendered, each such outstanding certificate which, prior to the Effective Time, represented shares of Existing Bank Common Stock, shall be deemed for all purposes, subject to the provisions of Section 13 hereof, to evidence the ownership of the shares of Company Common Stock into and for which such shares have been so converted and exchanged; provided, however, that upon surrender of such certificate theretofore representing shares of Existing Bank Common Stock, there shall be paid to the record holder or holders of the certificate or certificates of Company Common Stock issued in exchange therefor, the amount without interest thereon, of such dividends and other distributions, if any,

which theretofore have become payable with respect to the number of shares of Company Common Stock represented thereby. If any such shareholder of Existing Bank is unable to locate any of his certificate(s) which prior to the Effective Time represented shares of Existing Bank Common Stock, Company shall issue a check to such shareholder in the amount to which such shareholder would otherwise be entitled to receive hereunder without his surrendering such certificate(s), upon receipt by Company of an indemnity bond in favor of Company and satisfactory in all respects, including without limitation the issuer and the amount thereof, to Company.

(b) The stock transfer books of Existing Bank shall be closed as of the close of business on the Closing Date (hereinafter defined), and no transfer of record of any of the shares of Existing Bank Common Stock shall take place thereafter.

8. **Approval by Shareholders of Existing Bank and New Bank.** This Consolidation Agreement shall be submitted to the shareholders of Existing Bank and New Bank, at a meeting called to be held as promptly as practicable after proper notice or waiver of notice. Upon approval by the requisite votes of the shareholders of Existing Bank and New Bank, this Consolidation Agreement shall be made effective as soon as practicable thereafter in the manner provided in Section 12 hereof.

9. **Termination of Agreement.** This Consolidation Agreement may be terminated and abandoned at any time prior to the Effective Time, whether before or after action thereon by the shareholders of Existing Bank or New Bank:

(a) At any time by the mutual consent of the Boards of Directors of Existing Bank and Company;

(b) By the Board of Directors of Company if any of the conditions to the obligations of the Company contained herein shall not have been satisfied, or waived as of the Closing Date;

(c) By the Board of Directors of Existing Bank if any of the conditions to the obligations of Existing Bank contained herein shall not have been satisfied, or waived as of the Closing Date;

(d) By either Company or Existing Bank if the Closing Date shall not have occurred within one year from the date of this Consolidation Agreement.

In the event of the termination and abandonment off this Consolidation Agreement, the terms and provisions hereof shall be of no further force or effect.

10. **Waiver, Modification and Amendment of this Agreement.** Any of the terms or conditions of this Consolidation Agreement may be waived at any time, whether before or after action thereon by the shareholders of Existing Bank or New Bank, by the Board of Directors of the party which is entitled to the benefits thereof; and the Consolidation Agreement may be modified or amended at any time, whether before or after action thereon by the shareholders of Existing Bank or New Bank, by Company and Existing Bank; provided, however, that such action shall be taken by Existing Bank only if, in the judgment of the Board of Directors of Existing Bank, such waiver, modification or amendment will not have a materially adverse effect on the holders of Common Stock or Existing

Bank. Any waiver, modification or amendment shall be in writing.

11. **Rights of Dissenting Shareholders.** If such consolidation shall be voted for at such meetings by the necessary majorities of the shareholders of each association and state bank proposing to consolidate, and thereafter the consolidation shall be approved by the Comptroller of the Currency ("Comptroller"), any shareholder of any of the associations or State banks so consolidated who has voted agaisnt such consolidation at the meeting of the association or bank of which he is a stockholder, or who has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him when such consolidation is approved by the Comptroller upon written request made to the consolidated association at any time before thirty days after the date of consummation of the consolidation, accompanied by the surrender of his stock certificates.

The value of the shares of any dissenting shareholder shall be ascertained, as of the effective date of the consolidation, by an appraisal made by a committee of three persons, composed of (1) one selected by the directors of the consolidated banking association; (2) one selected by the majority of the shareholders; and (3) one selected by the two so selected. The valuation agreed upon by any two of the three appraisers shall govern. If the value so fixed shall not be satisfactory to any dissenting shareholder who has requested payment, that shareholder may, within five days after being notified of the appraised value of his shares, appeal to the Comptroller, who shall cause a reappraisal to be made which shall be final and binding as to the value of the shares of the appellant.

If, within ninety days from the date of consummation of the consolidation, for any reason one or more of the appraisers is not selected as herein provided, or the appraisers fail to determine the value of such shares, the Comptroller shall upon written request of any interested party cause an appraisal to be made which shall be final and binding on all parties. The expenses of the Comptroller in making the reappraisal or the appraisal, as the case may be, shall be paid by the consolidated banking association. The value of the shares ascertained shall be promptly paid to the dissenting shareholders by the consolidated banking association. Within thirty days after payment has been made to all dissenting shareholders as provided for in this section the shares of stock of the consolidated banking association which would have been delivered to such dissenting shareholders had they not requested payment shall be sold by the consolidated banking association at an advertised public auction unless some other method of sale is approved by the Comptroller, and the consolidated banking association shall have the right to purchase any of such shares of such public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price not less than par as its board of directors by resolution may determine. If the shares are sold at public auction at a price greater than the amount paid to the dissenting shareholders the excess in such sale price shall be paid to such shareholders. The appraisal of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases, rather than as provided in this section, if such provision is made in the State law; and no such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

12. **Closing Date and Effective Time.** The "Closing Date" shall be the later to occur of (i) the date thirty days after the date of the order of the Federal Deposit Insurance Corporation approving the consolidation pursuant to 12 U.S.C.1828(c)(1)(A), (or if such date is not a business day, then the next business day following); or (ii) such later date as Company and Existing Bank may agree upon. Subject to the terms, and upon satisfaction on or before the Closing Date of all requirements of law and the conditions specified in this Consolidation Agreement, including receipt of the approval of the Comptroller of Currency specified in 12 U.S.C. Section 215(a), the consolidation shall become effective at the time specified in the certificate to be issued by the Federal Deposit Insurance Corporation under the seal of the Corporation's office approving the consolidation, such time being herein called the "Effective Time."

13. **Counterparts.** For the convenience of the parties hereto and to facilitate the filing and recording of this Consolidation Agreement, any number of counterparts thereof may be executed, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument, but only one of which need be produced to evidence the participation herein of any signatures to this Consolidation Agreement.

14. **Conditions to this Agreement.** The obligations of the parties hereto are subject to the satisfaction or waiver of each of the following conditions precedent:

(i) that the holders of at least two thirds of the outstanding Common Stock of New Bank and of Existing Bank shall have voted to ratify and confirm the transactions contemplated by this Agreement.

(ii) that the holders of less than ten percent of the Common Stock of existing Bank be entitled to dissent and receive the appraised value of their shares of stock as provided in Section 7 thereof and 12 U.S.C. 215;

(iii) that the Board of Governors of the Federal Reserve System shall have issued an order approving the application of Company to become a bank holding company under Section 3(a)(1) of the Bank Holding Company Act of 1956;

(iv) that the Comptroller of the Currency shall issue an order approving the consolidation of Existing Bank and New Bank.

(v) that the Federal Deposit Insurance Corporation shall issue an order approving the consolidation of Existing Bank and New Bank; and

(vi) that the State Commissioner of Banking shall approve the conversion.

IN WITNESS WHEREOF, Existing Bank, New Bank and Company have caused this Consolidation Agreement to be executed in counterparts by their duly authorized officers and their corporate seals to be hereunto affixed as of the date first above written, and the directors constituting a majority of the Board of Directors of each such bank have hereunto subscribed their names.

KILGORE FIRST NATIONAL BANK

By: _____

D. R. Brogoitti, President

ATTEST:

_____

T. J. Craver, Secretary

A MAJORITY OF THE DIRECTORS OF
KILGORE FIRST NATIONAL BANK

Harris R. Fender	D. R. Brogoitti
R. S. Martin, III	R. E. Spradlin
R. S. Martin, Jr.	M. L. Still

NEW KILGORE FIRST
STATE BANK

By: _____
Harris R. Fender, President

ATTEST:

_____

Charles R. Wooldridge,
Cashier

THE DIRECTORS OF NEW KILGORE
FIRST STATE BANK:

Harris R. Fender.	Harris R. Fender, JR.
D. R. Brogoitti	Charles R. Wooldridge
David M. Fender	James W. Capps

KILGORE FIRST BANCORP, INC.

By: _____
Harris R. Fender, President

ATTEST:

_____
Charles R. Wooldridge, Secretary

APPENDIX B

Appraisal Rights of Dissenting Shareholders

12 U.S.C. 215

Liability of consolidated association; capital stock; dissenting shareholders

(b) The consolidated association shall be liable for all liabilities of the respective consolidating banks or associations. The capital stock of such consolidated association shall not be less than that required under existing law for the organization of a national bank in the place in which it is located. If a consolidation shall be voted for at a meeting by the necessary majorities of the shareholders of each association and State bank proposing to consolidate, and thereafter the consolidation shall be approved by the Comptroller, any shareholder of any of the associations or State banks so consolidated who has voted against such consolidation at the meeting of the association or bank of which he is a stockholder, or who has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him when such consolidation is approved by the Comptroller upon written request made to the consolidated association at any time before thirty days after the date of consummation of the consolidation, accompanied by the surrender of his stock certificates.

Valuation of shares

'c) The value of the shares of any dissenting shareholder shall be ascertained, as of the effective date of the consolidation, by an appraisal made by a committee of three persons, composed of (1) one selected by the vote of the holders of the majority of the stock, the owners of which are entitled to payment in cash; (2) one selected by

the directors of the consolidated banking association; and (3) one selected by the two so selected. The valuation agreed upon by any two of the three appraisers shall govern. If the value so fixed shall not be satisfactory to any dissenting shareholder who has requested payment, that shareholder may, within five days after being notified of the appraised value of his shares, appeal to the Comptroller, who shall cause a reappraisal to be made which shall be final and binding as to the value of the shares of the appellant.

Appraisal by Comptroller; expenses of consolidated association; sale and resale of shares; State appraisal and consolidation law

(d) If, within ninety days from the date of consummation of the consolidation, for any reason one or more of the appraisers is not selected as herein provided, or the appraisers fail to determine the value of such shares, the Comptroller shall upon written request of any interested party cause an appraisal to be made which shall be final and binding on all parties. The expenses of the Comptroller in making the reappraisal or the appraisal, as the case may be, shall be paid by the consolidated banking association. The value of the shares ascertained shall be promptly paid to the dissenting shareholders by the consolidated banking association. Within thirty days after payment has been made to all dissenting shareholders as provided for in this section the shares of stock of the consolidated banking association which would have been delivered to such dissenting shareholders had they not requested payment shall be sold by the consolidated banking association at an advertised public auction unless some other method of sale is approved by the Comptroller, and the consolidated banking association shall have the right to purchase any of such

shares at such public auction, if it is the highest bidder therefore, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price not less than par as its board of directors by resolution may determine. If the shares are sold at public auction at a price greater than the amount paid to the dissenting shareholders the excess in such sale price shall be paid to such shareholders. The appraisal of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases, rather than as provided in this section, if such provision is made in the State law; and no such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

APPENDIX "C"

Debenture

A-109

KILGORE FIRST BANCORP, INC.

$98.67 12% Subordinated Debenture Kilgore, Texas

Kilgore First Bancorp, Inc., a Texas corporation (the "Corporation"), for value received, hereby promises to pay to _____, as hereinafter provided, the principal sum $98.67, with interest thereon until fully paid at the rate of 12 percent (12%) per annum. Interest on the unpaid principal of this Debenture shall be paid annually, commencing on the first (1st) anniversary date after the issue date of this Debenture. "Anniversary date" shall mean the date this Debenture is executed and issued. "First anniversary date" shall mean the same day one year later. The principal of this Debenture shall be payable in thirteen (13) equal annual installments, the first of which shall become due and payable on _____.

This Debenture is one of a duly authorized issue of debentures of the Corporation, issued pursuant to certain authorizing resolutions adopted by the Board of Directors of the Corporation of _____, 1982. Upon any acceleration of the principal of this Debenture or upon any dissolution or liquidation of the Corporation the payment of this Debenture shall be subordinated to the prior payment of any Superior Indebtedness of the Corporation, as such may be so designated from time to time by the Board of Directors of the Corporation.

At the option of the holder of this debenture, the unpaid balance of this Debenture shall become immediately due and payable without notice on demand if any payment required by this Debenture is not made when due. The principal and accrued interest to the date of prepayment of this Debenture may be prepaid by the issuer at any time without penalty.

IN WITNESS WHEREOF, Kilgore First Bancorp, Inc., has caused this Debenture to be executed and issued in its corporate name and capacity as of this ____ day of _____, 1982.

KILGORE FIRST BANCORP, INC.

BY; _____

_____

ATTEST:

_____

_____

APPENDIX "E"

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 83-2662 & 84-2199

R. S. MARTIN, JR.,

Plaintiff-Appellant,

versus

KILGORE FIRST BANCORP, INC. and
KILGORE FIRST NATIONAL BANK,

Defendants-Appellees

Appeal from the United States District Court for the
Eastern District of Texas

ON PETITION FOR REHEARING
(January 7, 1985)

Before CLARK, Chief Judge, JOHNSON and WILLIAMS, Circuit Judges

PER CURIAM:

IT IS ORDERED that the petition for rehearing filed in the above entitled and numbered cause be and the same is hereby denied.

ENTERED FOR THE COURT:

/s/ Signed
United States Circuit Judge